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## **Germany and EU Energy Policy: Conflicted Champion of Integration?**

John S. Duffield and Kirsten Westphal

Germany is critical to the development of a common EU energy policy. It is by far the largest energy user of the 27 member states, accounting for approximately 18 percent of total energy consumption in the EU (BP 2010). It is also a substantial energy producer, ranking second in the production of coal (after Poland) and second in nuclear electricity generation (after France). Finally, Germany plays a crucial role by virtue of its central geographical location, which puts it in middle of regional natural gas and electric power distribution networks.

Germany has traditionally been one of the most consistent proponents of European integration. It was one of the six members of the three original European communities and, along with France, has often been regarded as the “motor” of European integration. In more recent years, Germany championed monetary union and the enlargement of European Union to include many of the Central European countries of the former Soviet bloc.

When it comes to recent developments in EU energy policy, however, Germany has exhibited much more ambivalence. It has backed some EU energy policy initiatives, especially those concerning climate change, renewable sources of energy, and energy conservation. But it has resisted a number of others, such as the liberalization of the gas and electricity markets and the creation of a common external energy policy. And even in cases where Germany has been generally supportive of a common energy policy objective, it has often fought hard to put its own stamp on the details, such as the mechanisms for promoting renewable energy sources and the implementation of the Emissions Trading Scheme (ETS).

This chapter explores the mixed pattern of German support for a common EU energy policy over the past decade. It begins by describing Germany's energy situation at the beginning of the 2000s and the energy challenges Germany has faced in recent years. It then describes the key features of German energy policy over the same period and how these have played themselves out at the EU level. A fourth section explores the determinants of German energy policy and its ambivalent attitude toward a common EU energy policy. The chapter concludes with a discussion of the implication of German policy for the future of EU energy policy.

## **A. Background**

### **1. Germany's Energy Mix in 2000**

As Germany entered the 2000s, its mix of energy sources had changed substantially since before the first oil shock in 1973. Oil continued to command the biggest share of Germany's primary energy consumption (PEC), at just under 40 percent. But this figure was down substantially from the peak of 57 percent in the former West Germany, reached in the early 1970s (BP 2010). Virtually all of the oil consumed in Germany was imported, with nearly one-third coming from Russia (IEA 2002, 58). But this import dependence raised few concerns, since petroleum and petroleum products from one foreign supplier can be substituted relatively easily by those from another.

Next came coal, which accounted for just over a quarter of Germany's PEC, a figure that had been fairly steady since the mid-1990s. Coal, especially brown coal (lignite), generated more than half of Germany's electricity, while hard coal was used in steel production. Although domestic coal production had declined as inefficient mines were closed, especially in the former eastern states, it still provided for about two-thirds of German coal consumption.

Third on the list was natural gas, which had met about 22 percent of Germany's energy needs since the mid-1990s. Germany was not entirely dependent on gas imports, producing about 20 percent of its consumption at home. But most imported gas arrived via fixed pipelines from just three countries -- Russia (45 percent in 2002), Norway (27 percent), and the Netherlands (22 percent) -- and could not easily be replaced in the event of a supply disruption (AGEB 2010; IEA 2002, 76).

Nuclear power plants accounted for 30 percent of electricity production in 2000. At the time, Germany had 19 operating commercial nuclear reactors, but none had come on line since 1988, and the former East German reactors had all been shut down for safety reasons (IEA 2002, 111).

Bringing up the rear were renewable sources of energy. These accounted for just 3.4 percent of PEC and 7.3 percent of electric power generation in 2000. But the contribution from renewable sources was growing rapidly, having doubled since 1990. In 2000, Germany was the world leader in wind power production and had the highest installed solar electric capacity in Europe (IEA 2002, 91-92).

## 2. General Goals and Challenges of German Energy Policy in the 2000s

German energy policy has been guided by three primary goals:

- 1) economic efficiency, especially in the form of affordable energy prices (*Wirtschaftlichkeit*);
- 2) environmental protection and sustainability (*Umweltverträglichkeit*); and
- 3) security of supply (*Versorgungssicherheit*).

Economic efficiency has been perhaps the most constant goal of postwar German energy policy. During the second half of the 1980s and most of the 1990s, its achievement did not seem particularly problematic. Energy, and especially oil, prices were generally low. In the late 1990s

and 2000s, however, it became a matter of increasing concern as oil prices rose more or less steadily.

In comparison, environmental sustainability is a relatively new goal. It first appeared in the 1970s in the form of worries about the safety of nuclear power plants and the disposal of nuclear waste. Since the late 1980s and 1990s, however, increasing attention has been devoted to the closely related challenges of climate change and reducing greenhouse gas (GHG) emissions, much of which are attributable to energy consumption. Public concern about climate change reached a crescendo in 2007, with the publication by the UN Intergovernmental Panel on Climate Change of its Fourth Assessment Report, but the issue has often dominated the German energy policy agenda in recent years.

In response, the government has adopted a series of ambitious goals and programs. In 1995, it established a goal of cutting CO<sub>2</sub> emissions by 25 percent over the period 1990-2005. And at the end of the 1990s, it agreed to reduce its GHG emissions by 21 percent (compared to 1990 levels) within the EU Burden-Sharing Agreement under the Kyoto Protocol (IEA 2002, 38). In 2000, the government adopted a comprehensive National Climate Protection Programme. And the Integrated Energy and Climate Programme (IECP) approved by the government in 2007 was largely, if not entirely, aimed at the addressing the problem of climate change (Duffield 2009). As Chancellor Angela Merkel stated, “with this program, we are taking on the central challenge of the 21<sup>st</sup> century, climate change” (Bundesregierung 2007). The government offered to reduce Germany’s CO<sub>2</sub> emissions by a breathtaking 40 percent below the 1990 level by 2020, conditional, however, on the EU achieving a 30 percent reduction over the same time period and other states committing themselves to similarly ambitious goals.

After spiking in the 1970s and early 1980 as a result of the oil shocks, concerns about energy security remained largely dormant during the next two decades. Even Germany's increasing reliance on energy imports, which reached 60 percent of total consumption in 2000 (IEA 2002, 28), raised few alarms. German officials emphasized that the country's energy supplies were highly reliable. Russia, like the Soviet Union before it, could be counted on for promised deliveries of oil and gas, and Germany possessed large petroleum stockpiles and gas storage facilities that it could draw upon in the event of an emergency.

Thus energy security did not regain prominence as a policy issue until the beginning of 2006. The occasion was the gas dispute that erupted that January between Russia and Ukraine. Over the next several years, additional events raised further questions about Russia's dependability as an energy supplier.

## **B. Key Elements of German Energy Policy in the 2000s**

How has Germany sought to promote its energy policy goals and address the corresponding challenges in the past decade?

One major thrust of Germany policy, which dates back to the 1970s, has been to reduce energy consumption by increasing energy efficiency. Germany had long maintained substantial excise taxes on most fossil fuels, and in 1999, the government introduced a new "eco tax" on motor fuels, heating fuels, and electricity, which was gradually raised over the next four years and was intended in large part to encourage energy savings. Early in the 2000s, the government quickly implemented EU directives on energy labeling of appliances and the energy performance of buildings, and it established a program to provide financial support for building renovations that improved energy efficiency and reduced CO<sub>2</sub> emissions. The 2005 grand coalition

agreement established the ambitious objective of doubling energy productivity by the year 2020 compared with 1990, which would require annual increases of around 3 percent.

A somewhat newer but equally important component of German policy has been the promotion of renewable energy sources, especially for electricity production. The use of renewables could serve to reduce both greenhouse gas emissions and fossil fuel imports. The first major step was the 1991 Electricity Feed Law, which obliged power companies to buy all the electricity generated from wind, hydropower, biomass, and solar energy in their distribution areas at a price, or feed-in tariff, based on the end-use cost to consumers. The 2000 Renewable Energy Act extended coverage to additional renewable sources, such as landfill gas and geothermal energy, and revised the feed-in tariff formula to reflect the cost of each technology and to provide long-term certainty for both developers and users (IEA 2002, 93-94).

As a result of these incentives, German renewable energy output grew at an annual rate of 12 percent between 2000 and 2006 (IEA 2007, 65). Thus Germany was able to meet its initial goals of generating 12.5 percent of its electricity and 4.2 percent of total energy consumption from renewable sources by 2010 well ahead of schedule. That rapid progress prompted the “Black-Red” grand coalition (2005-2009) to establish even more ambitious targets for renewable energy sources for 2020: at least 20 percent of electricity generation and at least 10 percent of the total energy supply. The coalition also introduced a biofuels obligation that would rise to 6.75 percent of the fuel supply in 2010, exceeding the corresponding EU target of 5.75 percent, and then to 8 percent in 2015 (IEA 2007, 72).

While consistently promoting energy efficiency and renewables, recent Germany energy policy has been less consistent in other areas. One has been the issue of energy market structure. The German government has frequently expressed support for competitive energy markets,

largely as a way of holding down energy prices. But it has also supported the establishment and maintenance of large national energy companies that could use domestic market power to increase their leverage in negotiations with foreign energy companies, such as Gazprom (Buchan 2009, 16). Thus when the Federal Cartel Office rejected the merger of one of the four dominant electric utilities, E.On, with the leading natural gas supplier, Ruhrgas, It was overruled by the Federal Minister of Economics (BWMi)<sup>1</sup> (Müller 2007, 32-33; Westphal 2007, 100). For domestic political and social reasons, the government also maintained subsidies for hard coal production, although in 2007 an agreement was reached to phase them out over the following decade.

Inconsistency has also characterized Germany policy toward nuclear power, despite the widespread revival of interest in nuclear power – the so-called “nuclear renaissance” -- that concerns about climate change and energy security have occasioned in a number of other countries. The Green party grew out of the nuclear protest movement in the 1970s, and the Social Democratic Party (SPD) had opposed nuclear power since the mid-1980s. When these two parties formed a “Red-Green” coalition government (1998-2005), one of their top priorities was to wean the country off of nuclear power. In 2000, the Red-Green government reached an agreement with the electrical utilities, formalized in a 2002 law, to phase out all nuclear power plants by limiting their effective lifetimes. No new plants could be constructed, and the last operating facility would go out of service around 2022 (Westphal 2009a).

Many outside the government, including the opposition parties, questioned the wisdom of the nuclear phase-out, which would deprive Germany of a carbon-free energy source and potentially increase Germany’s dependence on energy imports. And when the center-right CDU/CSU formed a grand coalition with the SPD in 2005, some of its leaders called for at least



extending the lifetimes of the existing nuclear power plants. Still, the SPD held firm, insisting that there be no change in the policy as a condition for joining the new government. The 2009 election of a CDU/CSU-Liberal “Black-Yellow” coalition, however, created a new opportunity to revisit the phase out, and in September 2010, the government called for a temporary extension (12 years on average) of the lifetimes of the remaining 17 power plants (BMWi/BMU 2010).

A final important aspect of German energy policy that has seen changing emphasis has been the external dimension. The Red-Green coalition, headed by Gerhard Schröder, emphasized building and maintaining bilateral ties with Russia (see the contribution by Grätz in this volume). It promoted in particular the construction by a consortium of Russian and German energy companies of a natural gas pipeline under the North Sea that would link Germany directly to Russian gas supplies. In the view of one experienced observer, “Germany has asserted that it reserves the right to work out its long-term energy security with Russia on a bilateral, mutually beneficial, pragmatic footing - and that it brooks no outside or third-party intervention” (Bhadrakumar 2006).

Although led by a former Schröder protégé, Frank-Walter Steinmeier, the foreign ministry in the subsequent Black-Red grand coalition placed more emphasis on multilateralism. The overall goal was to promote greater dialogue among producer, consumer, and transit countries in order to emphasize their common interest in stable and predictable energy trade. Steinmeier repeatedly called for the creation of a system of cooperation energy security, which, he argued, would help to build mutual understanding and trust. And with regard to Russia in particular, the new government’s principal approach was to try to embed Russia in a multilateral rule-based framework for trade and investment based on liberal principles of market access. The foreign ministry hoped to induce Russia to ratify the Energy Charter Treaty and its important

transit protocol and, that failing, to replace the expiring EU-Russia partnership and cooperation agreement (PCA) with a new one that contained a substantial section on energy (Duffield 2009).<sup>2</sup>

### **C. Germany and EU Energy Policy in 2000s: Implications of German Energy Policy**

Recent Germany energy policy has had mixed implications for the establishment of a common EU energy policy. Overall, one could say that Germany has been at best ambivalent about developments at the EU level. In some respects, Germany has made EU energy policy a top priority, especially where doing so has been seen as a means of achieving Germany's goals of fighting climate change and, to a lesser extent, energy security. Indeed, energy policy was a special focus during the German presidency of the EU during the first half of 2007, which saw the adoption of a set of ambitious EU energy policy goals at the spring meeting of the Council (Silberberg 2006). Among the goals that Germany set for the Presidency were

- O Boosting energy efficiency,
- O Promoting greater use of renewable energies,
- O Completing the internal markets for gas and electricity, and
- O Making the EU more visible as a player at the international level and putting its partnerships with key producer, transit, and consumer countries on a solid and reliable footing (Silberberg 2006).

In other respects, however, Germany has resisted movement in the direction of a common EU energy policy. In this regard, there was little change from the previous decade, when the government was described as one of those most reluctant to see a European energy policy develop, preferring to retain autonomy in the pursuit of supply security... (Jochem et al. 1996,

82) In the 2000s, Germany opposed the inclusion of an energy chapter in the proposed European constitution, when that ill-fated project was still being considered (Müller 2005, 178). Although an energy chapter was eventually included in the Lisbon Treaty, which stood in for the unsuccessful constitutional project, it nevertheless reflected Germany's consistent insistence that each member state should be free to determine its own energy mix, a position that became only more rigid following the decision to phase-out nuclear power plants. As one of the State Secretaries in the Foreign Ministry argued shortly before the beginning of the German EU presidency,

Brussels must respect Member States' particularities, including the issue of their national energy mix. We are firmly convinced that enhanced energy cooperation at the European level, which we champion, cannot override Member States' decisions on the makeup of their energy sources. This especially applies to Germany's decision to phase out nuclear power in accordance with the Coalition Agreement (Silberberg 2006).

With regard to more specific aspects of EU energy policy, Germany has resisted many of the Commission's initiatives for liberalizing the gas and electricity markets. And the external aspects of German energy policy have often had the effect, whether intentionally or not, of making it difficult for the EU to speak with one voice on energy issues.

### 1. Areas of Support

Germany has been most supportive of EU initiatives in the areas of energy efficiency, renewable energy sources, and climate policy. Germany strongly endorsed the Commission's 2007 proposal to increase renewables and efficiency and to reduce GHG emissions all by 20 percent by 2020, and it has sometimes proposed even more ambitious goals. Likewise, the grand

coalition's own 2007 Integrated Energy and Climate Program was viewed in large part as its effort to implement the EU's 20-20-20 in 20 goals at the national level.

Nevertheless, important differences have existed between Germany and the Commission over the details of these policies. For example, Germany's support for ambitious renewable energy targets has been conditioned on being able to maintain the use of feed-in tariffs, which have been viewed as so successful at promoting the development of renewable sources in Germany. Thus, on at least two occasions -- at the beginning of the 2000s prior to the adoption of the 2001 EU directive on the production of electricity from renewable sources and again prior to the 2008 directive on the promotion of renewable energy sources -- Germany has resisted Commission proposals to establish obligatory quota systems, which would mandate that certain quantitative levels be achieved by certain dates (Mahony 2007; see also Eikeland's contribution to this volume).

As Jørgen Wettestad points out in his contribution to this volume, Germany has also had an uneasy relationship with the Emissions Trading Scheme (ETS). In Wettestad's estimation, Germany's initial National Allocation Plan (NAP) for the first phase of the ETS (2005-2007) was only average and may even have involved an over allocation of emissions permits. Then in 2006, the German government proposed a reduction in its overall allocation for the second phase (482 million tonnes of carbon dioxide) that was just 3.4 percent lower than in the first. The Commission found this inadequate and unilaterally cut the proposed allocation by another seven percent, to 453 million tonnes, a level that the government was eventually forced to accept (Müller 2007, 31). More recently, Germany has criticized Commission proposals to reduce substantially the total allowed number of permits, to begin auctioning permits (rather than continuing to give them away to industry and utilities), and to centralize the auctioning of

emissions permits (rather than allowing each member state to conduct its own auctions) (Phillips 2008; Wettstad in this volume). Germany has also sought to give generous emissions allowances to coal-fired power plants (IEA 2007, 12 and 29).

## 2. Areas of Resistance

Germany has exhibited even more ambivalence toward the EU's project to create a single internal energy market. The German government has frequently expressed its support for this goal. For example, during its 2007 EU Presidency, the completion of the internal energy market was sometimes described as the government's "highest priority." In practice, however, Germany has put up considerable resistance to the proposals emanating from Brussels almost every step of the way (see also Buchan 2009, 21).

This resistance began in the 1990s, when the first EU directives on the electricity and gas markets were negotiated. Even then,

in contrast to its professed free market approach to the energy sector, the German government has been rather ambivalent about the liberalization of energy utility markets both at home and in a European context. It has offered only half-hearted support to the Commission in its attempts to open up electricity markets while it was strongly opposed to similar moves in the gas sector (Jochem et al. 1996, 82)

For example, Germany opposed the Commission's proposal that third party access (TPA) to the electricity grids be regulated as a way of reducing hidden barriers to entry and instead insisted on including the option of negotiated TPA, which Germany alone exercised. As a result, the German market remained effectively closed to foreign suppliers (IEA 2002, 108; Buchan 2008, 22).

In the early 2000s, as the Commission prepared a second package of internal energy market directives, Germany opposed, unsuccessfully this time, the organizational separation of energy companies' transmission activities from their generation and supply activities, even though this arrangement, known as legal unbundling, is regarded as one of the weakest means for ensuring an open market (Eikeland in this volume; IEA 2007, 10). And when the second package, adopted in 2003, mandated that each country establish national regulatory agencies for gas and electricity, Germany was the last member state to do so (Buchan 2009, 22). According to an IEA analysis, "The installation of a network regulator in 2005 signals Germany's acknowledgement that negotiated reform and internal regulation of the energy markets were unsuccessful" (IEA 2007, 9). Yet even then, the new Federal Network Agency (Bundesnetzagentur, or BNA) could devote only limited resources to energy regulation, since it was also responsible for other network industries (Buchan 2009, 47).

When further delays in the establishment of open energy markets prompted the Commission to develop a third energy package in the late 2000s, Germany once again sought to water down the provisions to the greatest extent possible. This time, the Commission called for full ownership unbundling as a way of breaking the stranglehold of the powerful, vertically integrated gas and electricity companies in countries like Germany. The German government, along with those of France and other countries whose gas and electricity markets are dominated by one or a small number of companies, however, expressed strong opposition to this proposal. As a result, the Commission was forced to resort to its fall back position of mandating the establishment of independent system operators (ISO) that "manage and operate transmission system assets without influence from transmission owners, but do not own the assets themselves" (IEA 2007, 38). Yet even this compromise was not deemed sufficient by Germany and others.

They insisted instead that the third package include the option for an independent transmission operator (ITO), which would not establish as many barriers between the network owners and operators (Buchan 2009, 72).

Another aspect of the original Commission proposal that Germany successfully opposed was the so-called “reciprocity clause.” As described in Eikeland and Grätz’s contributions to this volume, this provision would have prevented companies from non-member countries from controlling gas and electricity networks unless an agreement on mutual market access to the transmission assets in the potential investor’s home country had been concluded (see also Grätz 2009, 77). Informally known as the “Gazprom clause,” it was seen as being primarily aimed at requiring Russia to open its energy market and transmission networks to third parties in return for allowing the Russian state-owned gas company to invest in EU markets.

This last element of German policy toward the liberalization of the EU energy markets is linked to its approach to external energy relations in the late 1990s and 2000s. During the Red-Green coalition, Germany became the driving force for a renewed, special EU-Russia partnership (Westphal 2007, 105). As a practical matter, however, the government’s external policy was characterized by a shift away from multilateralism to a more unilateral pursuit of national interests (Westphal 2007, 101, 111). The government’s efforts to help German energy companies become internationally competitive and expand their activities abroad (as a way of enhancing Germany’s energy security) had negative implications for the EU’s attempts at promoting multilateral governance and common institutions in relations with Russia. The Schröder government’s use of its strong personal ties with the Putin administration to promote German-Russian energy relations undermined the Commission’s efforts to establish a common foreign energy policy and, paradoxically, limited the opportunities of the EU as a whole to

diversify its energy supply and increase its energy security (Westphal 2007, 93, 112). This approach was perhaps most evident in the Schröder government's strong backing of the Nord Stream pipeline project, which would provide a direct link between Germany and Russian gas supplies.

The prospects for German support for a common external EU energy policy seemed to improve during the subsequent grand coalition. From the outset, Chancellor Merkel exhibited more skepticism toward Russia, an attitude that was only reinforced by the Russia-Ukraine gas conflict in early 2006. Meanwhile, Foreign Minister Steinmeier offered much rhetorical support for the development of a European external policy that would enable the EU to speak with a single voice. He placed considerable emphasis on getting Russia to ratify the EU's Energy Charter Treaty or at least to negotiate an energy agreement grounded in the principles contained in the unratified treaty (Duffield 2009). And as noted above, improving external energy relations was one of the goals of Germany's EU Presidency in 2007. But these ideas were not accompanied by concrete proposals to increase either the EU's legal competence or its institutional capacity to conduct a common external energy policy. To the contrary, Germany never relinquished its prerogatives to act unilaterally in this area.

#### **D. Determinants of German Energy Policy**

How are we to explain and understand Germany's mixed record of support for a common EU energy policy in recent years? A logical place to begin is with general societal preferences. Of particular relevance in this context is the high level of concern about the environment that has characterized German society, although this environmentalism has, paradoxically, cut both ways. On the one hand, acute concerns about climate change have done much to motivate significant efforts by governments of all political stripes to promote energy efficiency, renewable sources of



energy, and reductions in greenhouse gas emissions at both the national and European levels. On the other hand, widespread concern about nuclear power, ranging from ambivalence to outright opposition, underlay the Red-Green coalition's decision to phase-out nuclear power and the inability of any government to facilitate the construction of new power plants. These policies, in turn, have created an obstacle to cooperation with EU partners on some energy issues and reinforced Germany's determination to maintain national autonomy over the choice of energy sources.

Arguably, however, an even more important determinant has been the structure of the energy economy, especially those aspects concerning electricity and gas. Ironically, as the EU has sought to increase competition in the gas and electricity markets, those industries have been concentrated in fewer hands in Germany. The number of major supraregional gas companies that owned the major pipeline systems and accounted for most of Germany's gas imports declined from six to as few as four during the 2000s (IEA 2002, 73-74; IEA 2007, 99). Similarly, electricity generation and transmission have been dominated by just four supraregional companies -- E.ON, RWE, EnBW, and Vattenfall -- that control about three-quarters of the country's generation capacity and have accounted for an even higher percentage of the electricity actually produced (IEA 2007, 127). These companies have divided Germany into four regions in which they act as quasi-monopolies (Müller 2007, 29).

Two characteristics of the major energy companies have underpinned German resistance to the creation a common EU energy policy. First, as suggested above, they are vertically integrated. Not only do the Big Four electricity companies produce and transmit most of the electricity, but they also dominate retail supply and distribution, in part through cross-ownership of municipal utilities and in part directly (IEA 2007, 30; Müller 2007, 29). Such vertical

integration furthers the narrow commercial interests of the companies themselves. But some have argued that it also serves the national interest, by enabling German companies to compete with other national champions in the EU and by increasing their leverage in negotiations with foreign suppliers (see also Eikeland's contribution to this volume). In any case, the German electricity and gas companies have strongly lobbied at the national and EU levels against such measures as legal and ownership unbundling in order to maintain their profitable vertically integrated corporate structures as well as their oligopolistic market structures.

The other important characteristic with implications for Germany's support for a common EU energy policy are the close ties that the gas companies have with Russia. Ruhrgas, now E.On Ruhrgas, is currently the largest foreign shareholder in Gazprom, with about 6.4 percent of the shares, and it has a strategic interest in maintaining close energy ties with Gazprom and in expanding into the exploration and production of Russian gas because it produces only five percent of the gas it sells. Likewise, BASF Wintershall has a history of various cross-ownership deals with Gazprom. Both companies hold long-term gas delivery contracts with Russia that extend beyond 2030.

These structural linkages between German and Russian companies created an alliance of interests that undermined, or at least weakened, the Commission's efforts to extend competition within and beyond the EU's borders (Westphal 2007, 105). The German gas importers prefer to minimize competition on the German market because of the vulnerability inherent in their long-term purchasing contracts from Gazprom (Müller 2007, 39). In addition, E.On Ruhrgas and Wintershall lobbied strongly for the Nord Stream project, in which they were junior partners to Gazprom, because it would strengthen their position on the international and EU markets (Westphal 2007, 111).

This discussion of the electricity and gas industries raises the issue of the relationship between business and government. The interests of the energy companies would not matter so much if they did not receive expression in government policy. In fact, however, many companies have enjoyed close links with, and presumably have exercised considerable influence over, at least parts of the government, and these ties may have grown even stronger during the late 1990s and early 2000s when the government was negotiating the first stages of the liberalization process and the nuclear phase out (Westphal 2007, 105).

The energy industry has been one of the main constituencies of Federal Ministry of Economics (BMWi). And as long-term energy policy analyst Friedemann Müller has argued, the close links between energy companies and BMWi have resulted in a conservative German policy toward the EU. In particular, the resistance of energy companies to EU energy market liberalization efforts has influenced the BMWi position in Brussels negotiations. In Müller's view, the BMWi reflexively defends the interests of the energy industry under almost any circumstances (Müller 2005, 177-78; see also Müller 2007, 33).

It is not just a matter of industry using its allies in government to do its bidding, however. The relationship is more complicated than that. While the companies seek to influence the government in order to promote their self-interest, many government officials view strong energy companies as serving German national interests.

A final factor shaping German policy has been differences in the orientations of the major political parties. The SPD has traditionally been more open to cooperation with first the Soviet Union and then Russia, while the CDU/CSU has been more wary. These differences were on display in the contrasting approaches of Schröder and Merkel, described above. In addition, the CDU/CSU has been more supportive of European integration and market liberalization. Thus

the CDU/CSU-FDP government under Helmut Kohl (1982-1998), which oversaw the implementation of the Single European Act and negotiated the Economic and Monetary Union, may have been more supportive of the initial steps toward the creation of a single energy market than was the following SPD-Green coalition.

Nevertheless, these differences should not be exaggerated. For example, since the 1970s, both major parties have tended to hold a more positive view of the Soviet Union/Russia than have other West European powers, such as France and Great Britain. Hence officials of all governments have insisted on the reliability of Russian gas supplies, and even the 2006 Russia-Ukraine gas conflict did not seem to call into question this basic tenet of German energy policy.

## **E. Conclusion**

Germany has traditionally been a leading proponent of European integration. Yet in recent years, it has been ambivalent about, if not downright antagonistic toward, the creation of a common EU energy policy. Successive German governments have resisted or at least not supported some of the most central elements of EU policy, especially energy market liberalization and external energy relations.

This ambivalence has been grounded in large part in the structure of the German energy sector, which has been dominated by a small number of gas and electricity companies, and the particular interests of those powerful companies. Those companies have opposed various efforts to liberalize the gas and electricity markets and have sought to retain a free hand in negotiations with foreign suppliers such as Gazprom. In turn, successive German governments have tended to give voice to those commercial interests in negotiations at the EU level.

Even where German officials might see some advantage, such as lower energy prices, in supporting Commission initiatives, they confront a “chicken-and-egg” problem. Until the

European energy markets are fully integrated and liberalized, the security of Germany's energy supply will depend to an important extent on the maintenance of strong national companies that can compete and negotiate on roughly equal terms with state-owned enterprises and powerful foreign energy interests. But as long as they exist, those same companies will lobby against further liberalization measures.

Nevertheless, the last couple of years have seen some developments that provide reasons for optimism. In 2008, several of the large German energy utilities, including E.On, RWE, and Vattenfall, under pressure from the Commission for allegedly engaging in uncompetitive practices, decided to sell their transmission networks. This unexpected development raised hopes that other giant energy concerns, in Germany and elsewhere, would follow suit.

An even more recent development has brought German policy more in line with that of the other major EU member states as well as the preferences of the Commission. In 2009, national elections brought to power a new government that promised to review German energy policy, especially the nuclear phase-out decision. The following year, the Black-Yellow coalition prepared a new energy concept paper that called for extending the lifetimes of the remaining nuclear power plants (BMWi/BMU 2010).

In addition, the new energy concept suggests a greater degree of emphasis on pursuing Germany's energy policy goals at the European level. One of the longest (of nine) sections is devoted to the issue of energy supply in the European and international context. Other proposed steps including supporting the import of green electricity from third countries and pushing forward the creation of an integrated electricity market through new transmission lines in Europe and beyond. Nevertheless, it is too soon to tell whether these developments suggest more than minor adjustments in German policy, rather than a fundamental reorientation.

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## **End Notes**

1. From 2002 to 2005, the BMWi was combined with part of the traditional Federal Ministry of Labour and Social Affairs to form a superministry known as the Federal Ministry of Economics and Labour (BMWA)
2. In 2009, Russia withdrew from the treaty (Westphal 2009b).